

Government of the District of Columbia
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Vincent C. Gray
Chair, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: JUL 13 2007

SUBJECT: Fiscal Impact Statement (Revised): "Prohibition of the Investment of Public Funds in Certain Companies Doing Business with the Government of Sudan Act of 2007"

REFERENCE: Bill Number 17-134, Committee Print

Conclusion

Funds are sufficient in the FY 2007 budget and the proposed FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation.

Background

The proposed legislation would prohibit the investment of District public funds in certain companies conducting business in Sudan. Specifically, the proposed legislation would prohibit the investment of and require the divestment of District public funds in certain companies that conduct business with or in support of the Government of Sudan, that are complicit in the Darfur genocide, or that supply military equipment in Sudan.¹ Companies meeting any of these criteria are referred to as "scrutinized" companies in the proposed legislation.

The investment prohibition and divestment requirements of the proposed legislation would apply to general District funds and the assets of or funds managed by:

- The District of Columbia Retirement Board;
- The Board of Trustees in charge of the D.C. Retirement Board;
- The National Capital Revitalization Corporation (NCRC); and

¹ In this legislation, the Government of Sudan is the government in Khartoum, which is led by the National Congress Party or any successor government formed on or after October 13, 2006, and does not include the regional government of southern Sudan.

- The Anacostia Waterfront Corporation (AWC);² or
- Any successor quasi governmental corporation established by District government.

The proposed legislation would require that the Mayor identify all "scrutinized" companies within 90 days of the passage of the proposed legislation. If the Mayor determines that a "scrutinized" company is part of the District's investments, the fund managers would be required to divest 50% of these funds within six months of the company's identification and to divest 100% of these funds within 12 months of the company's identification.

The District's proposed legislation is based on model legislation from the "Sudan Divestment Task Force," which has been adopted in 12 states.³ The Task Force maintains a list of "scrutinized" companies, which is updated quarterly.

Financial Plan Impact

Funds are sufficient in the FY 2007 budget and the proposed FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. The proposed legislation could generate one-time transaction costs to the entities managing the investment funds affected by the proposed legislation. However, the transaction costs, if any, would be minimal.

The primary possible fiscal effect of this legislation is the opportunity cost resulting from restricted investment choices. That is, if the proposed legislation significantly reduced the investment choices for the District and those investment choices contributed significantly to the value of the District's holdings, then the legislation may result in foregone growth to the District's investments. If the allowable alternative investment options could not provide a rate of return equal to the return from the illegal investments, then there would be an opportunity cost to the legislation. In addition, the proposed legislation could generate transaction costs associated with the process of divestment.

² Subtitle II(P) of the FY 2008 Budget Support Act of 2007 (B17-148) would abolish the NCRC and the AWC and transfer their assets, liabilities, and responsibilities to the Office of the Mayor. This transfer would not have an effect on the fiscal impact of the proposed legislation because any investment funds under current control of the NCRC and the AWC would still be subject to the legislation's provisions once they are under control of the Mayor.

³ Information about the Task Force and its research into scrutinized companies is available at <http://www.sudandivestment.org/home.asp>